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GOVERNMENTAL POLICY AND TRADE RELATIONS WITH THE FAR EAST¹

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THE chairman has referred to the war in Europe. A few days ago I heard someone remark that whether the Allies or the Central European powers were victorious, it would be German organization that would win the war. That seems obvious. It might, nevertheless, be well to consider for a moment the implications of this statement. We have seen the operation of a wonderful national machine in Germany, and, at the same time, we have witnessed efforts in England and France and Russia to organize on a national scale not only the military and naval, but the industrial forces which those powers must bring to bear to combat the German system. It is true that British and French finance was at the very outset of the war subjected to a governmental control which up to that time had never been contemplated. Yet it took some time for the British and the French democracies to realize that they must, if they would be successful, attempt in some way to secure a unity and concentration of effort in industry and agriculture as well.

Discussion of this point may seem a far cry from the subject which has been assigned to me today. I do not think so. You are familiar with the fact that early in our history it was the policy of the American government to further its trade relations, particularly with the nations of the Far East. Various gentlemen traveled in American men-of-war to negotiate treaties with Korea, with China and Siam. Commodore Perry succeeded in establishing an understanding with Japan, which resulted in the conclusion of our first treaty of commerce with that country. I do not suppose that those gentlemen even dreamed of the term which was later applied to that form of

¹ Read at the meeting of the Academy of Political Science, November 12, 1915.

governmental activity—"dollar diplomacy." As a matter of fact, they were engaged much more than Mr. Taft's administration in an effort, by direct governmental intervention, to establish trade relations with the nations of the East. It was, of course, their object at that time to pave the way for the establishment of the commercial relations of that period. At that time international commerce was in reality barter. Vessels carried goods from the United States, which they exchanged for other goods. These were again exchanged, until the merchant adventurers returned to Boston or Salem or New York with a handsome profit on the voyage.

It was only when the element of finance was injected into the situation, when it became necessary for the government, through a financial instrument, to assist in the establishment of trade relations, that criticism was provoked. That criticism was due, it seems to me, primarily to a misunderstanding of the functions of finance in the development of trade, and a lack of appreciation of the proper functions of the government as regards both commerce and finance. In considering these subjects, and our relations with the Far East, we are again confronted by the fact that it was the effectiveness of German organization which made it necessary for our government to develop the much-criticized "dollar diplomacy." The German occupation of Tsingtau in 1897 precipitated the international scramble which eventually resulted in the formation of what was at one time known as the "Six-Power" group which was denounced by President Wilson shortly after he entered the White House.

The Germans first appreciated the value of national organization for trade development. This policy was imposed upon them by the necessity of their position. When the German Empire was organized after the Franco-Prussian war, German merchants found the markets of the world occupied very largely by their British competitors. British trade had been built up in more or less haphazard manner, thanks to the adventurous disposition of British merchants, also in a large measure to the lack of opportunity in the British Isles and to the ability of the London market to finance certain foreign

loans. There was no real organization, however, in British overseas trade. The Germans, in order to enter world markets, analyzed their situation and developed a scheme by which their commercial and financial interests could be operated in connection with the agencies of the government.

German competition in China became serious when Germany seized Tsingtau. German merchants, it is true, had traded in Hongkong, Shanghai and elsewhere, but the occupation of that port, the determination of Germany to extend its influence through the province of Shantung, brought a new element into the situation. The other powers promptly followed Germany's example, established naval bases on Chinese soil, and secured from the Chinese government concessions for railways to run through certain areas, which they delimited as their spheres of influence. This scramble by the foreign powers was largely responsible for the growth of unrest in China which culminated in the Boxer outbreak of 1900. In the expedition of the Allied forces to Peking, and immediately thereafter in the settlement of that trouble, there was introduced for the first time an element of international co-operation, the necessity for which had been foreseen by Secretary Hay when he enunciated his "open door" policy.

The various powers had originally subscribed to that doctrine not so much because they were actuated by any particularly altruistic motives, as because Secretary Hay's formula happened at that time to meet their peculiar needs. They recognized that it would be impossible for them to occupy by military force and to hold without an expense entirely out of proportion to the benefit to be derived, any portion of China. They had, therefore, determined upon this policy of finding spheres of influence. But even with these spheres of influence they had found that their interests were not developing as they might wish. The Chinese government was weak, and endeavored to protect itself by setting one power against another, with the resulting friction between the powers, which culminated in the Russo-Japanese war. Following the struggle, it became necessary to effect a new readjustment.

The powers which had at first established spheres of influ-
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ence, and which later came to a certain agreement as regards the development of their respective interests in China, were actuated by the desire to secure markets for their goods. As Mr. Muchnic has pointed out this afternoon, the manufacturers of the nations whose bankers furnished the money for the construction of railways were the manufacturers who secured the orders for all the railway material. As railways were built under British, German, French and Belgian engineers, a market was created for other goods which were introduced into China by these engineers and with which the Chinese became acquainted for the first time.

It had long been the policy of the American government to assist China in her own development. It was that friendship for China which had inspired Secretary Hay's "open door" policy. It would be incorrect, however, to say that that policy was entirely altruistic. Certainly it was in no small measure prompted by the belief that that friendship for China was a sound policy, and one calculated to develop American trade in the East. But owing to the development of the railway policy of the European powers, it became apparent that it would be practically impossible for our manufacturers to secure a share of Chinese business unless American bankers could be induced to finance Chinese enterprises. To secure the opportunity which we should otherwise have lacked, Secretary Knox suggested that an American banking group should go to China and endeavor to secure participation in certain loans then being discussed. Although this desire to secure trade was a strong factor, there was in addition a hope that if American interests secured a foothold in China, it would be possible for them to co-operate with other national interests and to make of the "open door" doctrine a really effective instrument by clothing it with a commercial, as well as a political, character. It was believed that the integrity of the Chinese Empire, which from time to time had been threatened, would be safeguarded by such co-operation among the great powers. The American banking group withdrew from China, but the situation today is very similar to that which existed some six years ago, and the problem before this country is the same and requires the same remedy.

It has been frequently asserted that the American government could not lend its support to any banking group or any contractor in collecting debts—that is, could not collect debts by force. That criticism was very largely directed against the so-called policy of “dollar diplomacy.” Many people said it meant a “gun-boat policy,” and it was widely asserted and believed that our government proposed to send out the American fleet to collect interest due bankers in case of default. As a matter of fact, the function of the government is not, and cannot be, that of a collecting agency. It is true that from time to time it may be necessary to invoke official assistance in inducing some foreign government to live up to a contract with an American firm or corporation, but in the main, and as regards the Far East—and in the Far East, China is really the only country concerned—it should be the function of our government to assure to American enterprise an equality of opportunity. That equality of opportunity in China can be obtained, no matter what the government may do, only if it is possible to induce American bankers to finance Chinese enterprises.

The modern conception of the banker is very different from that which was generally held a few years ago. Opinion even in this country is rapidly changing. We have recently seen an issue of five hundreds of millions of bonds by the English and French governments, not to secure money which those governments could use for their own purposes in England or in France, but to finance the purchases which they had made in this country.

It is exactly that function which it is necessary that the bankers should perform for American industry if American industry is to have its share of the Chinese trade. It is not essential, as so many people have asserted, that our governments should guarantee the bonds that our bankers are to take, but it is essential that the governments should co-operate with our banking and commercial interests in order to see that they secure an equality of opportunity and are not hampered by the political activity of their commercial rivals.

The situation in China is somewhat different from that which
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exists in South America. The relation as between commerce and finance is the same, but the function of the government in China is more important than in South America. In South and Central America, with one or two exceptions, the governments are stable and are not subject to or driven by outside influences. In China, on the other hand, the government is, and has been, weak. There is constant pressure on all sides. One legation insists that a certain contract should be concluded with this person, another demands that the contract should be concluded with that firm. In many cases the contract is awarded to the people whose diplomatic representatives have brought the strongest influences to bear. The situation is unfortunate. It would be much better for all concerned if the Chinese government were not so weak, if it could withstand demands of this sort and consider proposals submitted on their commercial merit alone. But facts are facts, and must be taken into consideration if progress is to be made.

It was the aim of Mr. Hay's "open door" policy, and it was the aim of Secretary Knox in furthering negotiations which resulted in the establishment of the "Six-Power" group, to create international co-operation in China as distinct from conflicting national interests. It was believed that such co-operation would be beneficial to China, that it would give China an opportunity to work out her own salvation, and that it would assist in the development of China's foreign trade.

In the long run, it might be as well for the Chinese people if their government were subordinated to some other, but as the world develops it becomes more and more unlikely that any people will be willing to live permanently under alien control, and for that reason I feel that it is necessary, if China is to progress, to revive that idea of international co-operation which has for the time being been abandoned. It may be impossible to do anything, to take any steps along this line, until the war in Europe is over. But it seems to me that the time is not far distant when the American government may have a great opportunity to reassert the policy enunciated by Secretary Hay, and continued by Secretary Knox in an effort to bring this about.

The developments of the past year have brought to people in this country a more intelligent appreciation of the necessity for the co-operation between government and commerce and finance. The manufacturers and the bankers must work hand in hand. The manufacturers cannot sell their goods unless the bankers are able to sell their loans, and the bankers will not be able to sell their loans because there will be no public to buy the loans unless the manufacturers in turn are prosperous.

It is impossible to divide public and private credit into water-tight compartments. It is impossible to regard the problem of the manufacturers without considering the problem of finance. It is impossible to regard the problem of finance without considering the problems created by industry. As the government is the representative of all interests, as it is only through the government that all interests can really co-operate, the general prosperity of the country and the strength of the government depend upon the development of commerce and industry and finance. It is essential, if we are to develop our commercial relations with the Far East, that we should have a just appreciation of the important bearing of American diplomacy on those commercial relations.

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